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will improve the likelihood of repayment of an outstanding RUS loan and all outstanding balances of the previous RUS loans are paid in full.

(e) In determining the amount it will lend for each acquisition, RUS shall place a valuation on all telephone facilities that are to be acquired with loan funds. RUS may consider fair market value, the original cost less depreciation of the facilities, income generating potential, any improvement in the financial strength of the borrower as a result of the acquisition, and any other factors deemed relevant by RUS to determine the reasonableness of the acquisition price and the amount of loan funds RUS will provide for an acquisition. RUS shall not consider the acquisition price reasonable or approve a loan if, in the Administrator's opinion, the acquisition price will endanger financial feasibility. If the acquisition price exceeds the amount RUS will lend, the borrower provides the remainder.

(f) When a borrower intends to request RUS loan funds for an acquisition, it shall present a proposal in writing to the Area Office as soon as possible. The borrower must either obtain RUS approval prior to making any binding commitments with the seller or make the commitments subject to RUS's approval. Failure to comply with these requirements will disqualify the borrower from obtaining an RUS loan for the acquisition unless the Administrator determines there were extenuating circumstances.

§ 1735.71 Nonrural areas.

Loan funds may be approved for the acquisition and improvement of facilities to serve nonrural subscribers only if the principal purpose of the loan is to furnish and improve rural service and only if the use of loan funds to serve nonrural subscribers is necessary and incidental to the principal purpose of the loan. For example, when the acquisition of an existing system located in and serving a nonrural area is necessary to serve as the nucleus of an expanded system to furnish area coverage service in rural areas, the loan may include funds to finance the acquisition. Approval for the use of loan funds in these circumstances shall be made only

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on a case by case basis by the Administrator.

§ 1735.72 Acquisition agreements.

When borrowers are seeking RUS financing, acquisition agreements between the borrower and the seller must be in form and substance satisfactory to RUS and shall be expressly conditioned on approval of the agreement by RUS and on obtaining an RUS loan. Normally, the acquisition agreement will not be approved by RUS until the loan has been approved.

§ 1735.73 Loan design.

When loan funds are requested for an acquisition, details of the proposed acquisition shall be included in the Loan Design. See 7 CFR part 1737.

§ 1735.74 Submission of data.

(a) RUS will not approve any acquisition, other than of toll facilities (see subpart J of this part), financed in whole or in part with loan funds until the borrower submits the following data to the GFR:

(1) For any nonborrowers involved, their most recent balance sheets, operating statements, detail of plant accounts, reports to the state commission, and audits, if available.

(2) Completed RUS Form 507, "Report on Telephone Acquisition," which provides system data, including the type of purchase and purchase price, a system description, and data by exchange. See § 1735.3 for information on obtaining copies of this form.

(3) A map (such as a road map) showing county lines, the boundaries of the proposed acquisition and the borrower's existing service territory, and the names of other telephone companies serving adjoining areas.

(4) A brief statement of the plans for incorporating the acquired facilities into the borrower's existing system.

(5) The number of subscribers currently receiving service in the area to be acquired and the number of new subscribers that will be served over the next 5 years as a result of the acquisition.

(6) The proposed purchase price.

(7) Two copies of any options, bills of sale, or deeds, and four copies of any acquisition agreements. All of these

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documents are subject to RUS approval. If the acquisition agreement is approved by RUS, two copies of it shall be returned to the borrower.

(8) An appraisal by the borrower's consulting engineer or other qualified person of the physical plant to be acquired. The appraisal shall include the following:

(i) Inspection of each central office, noting the age and condition of the switch and associated equipment, and the extent and quality of maintenance of the equipment and premises.

(ii) Inspection of the outside plant, noting the general age and condition of cable and wire, poles and related hardware, pedestals, and subscriber drops. Any joint use or ownership shall be explained.

(iii) Inspection of miscellaneous items such as commercial office facilities, vehicles, furniture, tools and work equipment, and materials and supplies in stock, noting age and condition.

(iv) Inspection of all buildings and other structures (such as radio towers), noting age and condition.

(v) Detailed description of all real estate including the present market value that local real estate dealers, bankers, insurance agents, etc., place on the property.

(vi) Any widely accepted method, approved by RUS, may be used to estimate the condition of the facilities in paragraphs (a)(8)(i) through (a)(8)(iv) of this section. The "percent condition" method is recommended, but is not required.

(9) Copies of deeds to real estate to be acquired, with an explanation of the proposed use of the land.

(10) Copies of leases to be acquired.

(11) Copies of any existing mortgages with parties other than RUS, indentures, deeds of trust, or other security documents or financing agreements relating to the property to be acquired and any contracts or other rights or obligations to be assumed as part of the acquisition.

(12) A list of all counties in which the proposed system will have facilities.

(13) If the borrower is a cooperative-type organization, a description of its plans for taking subscribers in as members, membership fees, equity payments required because of the acquisition,

and extent of membership support.

(14) A certification, signed by the president of the borrower, that the borrower is participating in the State's telecommunications modernization plan (for information concerning the plan, see 7 CFR part 1751, subpart B). This certification is not required if the borrower is seeking a guaranteed loan.

(15) Any other data deemed necessary by the Administrator for an evaluation of the acquisition.

(b) For stock acquisitions, the borrower shall submit the following in addition to the items listed in (a) of this section:

(1) A list of all stockholders of the company to be acquired and the number of shares each owns.

(2) Guarantees and indemnifications to be obtained from the sellers of the stock.

(Approved by the Office of Management and Budget under control number 0572-0084)

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§ 1735.75 Interim financing.

(a) A borrower may submit a written request for RUS approval of interim financing if it is necessary to close an acquisition before the loan to finance the acquisition is approved. Loan funds shall not be used to reimburse acquisition costs unless RUS has granted approval of interim financing prior to the closing of the acquisition.

(b) RUS will approve interim financing of acquisitions only in cases where loan funds cannot be made available in time for the closing.

(c) RUS will not approve interim financing unless the following information is acceptable:

(1) A written request for approval of interim financing, including a brief description of the acquisition, an explanation of the urgency of proceeding with the acquisition, and the source of funds to be used.

(2) A completed RUS Form 490, "Application for Telephone Loan or Loan Guarantee." See 7 CFR part 1737.

(3) The portions of the Loan Design that cover the proposed acquisition, including cost estimates and information